

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Wisconsin Energy Corporation, Integrys Energy)	
Group, Inc., Peoples Energy, LLC, The Peoples Gas)	
Light and Coke Company, North Shore Gas Company)	
ATC Management, Inc., and American Transmission)	
Company, LLC)	
)	14-0496
Application pursuant to Section 7-204 of the Public)	
Utilities Act for authority to engage in a)	
Reorganization, to enter into agreements with)	
affiliated interests pursuant to Section 7-101, and for)	
such other approvals as may be required under the)	
Public Utilities Act to effectuate the Reorganization.)	

Surrebuttal Testimony of

DAVID D. GIESLER

Senior Project Manager
Integrys Business Support, LLC

On Behalf of
Integrys Energy Group, Inc.

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 **Q. Please state your name and business address.**

4 A. My name is David D. Giesler. My business address is 700 North Adams Street, Green
5 Bay, Wisconsin 54307.

6 **Q. Are you the same David D. Giesler who provided rebuttal testimony on behalf of**
7 **Integrus Energy Group, Inc. in this docket?**

8 A. Yes.

9 **B. Purpose of Surrebuttal Testimony**

10 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

11 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of
12 Illinois Attorney General (“AG”) witness Sebastian Coppola¹ and City of
13 Chicago/Citizens Utility Board (“City/CUB”) witness William Cheaks Junior² related to
14 aspects of The Peoples Gas Light and Coke Company’s (“Peoples Gas”) Accelerated
15 Main Replacement Program (“AMRP”).

16 **C. Summary of Conclusions**

17 **Q. Please summarize the conclusions of your surrebuttal testimony.**

18 A. The conclusions of my surrebuttal testimony are that: (1) it is not accurate to characterize
19 City of Chicago (“City”) degradation fees as “fines” or “penalties”; (2) the Joint
20 Applicants continue to disagree that scaling back the AMRP to focus on what AG witness
21 Mr. Coppola calls “high priority” and “high risk” facilities would be a cost-effective way

¹ AG Ex. 4.0.

² City/CUB Ex. 7.0.

to implement the AMRP; and (3) the Joint Applicants continue to disagree that the additional reporting and monitoring recommended by City/CUB witness Mr. Cheaks would be appropriate.

II. DEGRADATION FEES

Q. AG witness Mr. Coppola states that he finds “troubling” the Joint Applicants’ view that City of Chicago degradation fees are not fines or penalties and are included in rates. AG Ex. 4.0, 16:300-302. What are degradation fees?

A. The City assesses a degradation fee when work is done in a “moratorium” street, *i.e.*, a street that has been reconstructed or repaved within a specified period of time. It is a charge assessed on top of the otherwise applicable permit fee. For example, per Section 3.4.3 of the Chicago Department of Transportation’s Rules and Regulations for Construction in the Public Way, a ten-year moratorium applies after a street is reconstructed, and, during that time, permit fees are doubled. The Joint Applicants disagree that the degradation fee piece of the permit fee is a “fine” or “penalty.”

Q. Are the higher permit fees associated with moratorium streets limited to AMRP work?

A. No. Routine operation and maintenance work often requires Peoples Gas to work in a moratorium street. For example, the harsh winter weather in 2014 led to gas leaks that Peoples Gas needed to repair. This is unrelated to AMRP work and is not work that can be deferred or ignored because it happens to involve a moratorium street.

Q. Why does Peoples Gas not plan so that it can avoid degradation fees?

43 A. That is not always possible. For example, when a gas leak occurs, obviously, Peoples
44 Gas must do the repair work, whether or not it affects a moratorium street. As a second
45 example, as I explained in my rebuttal testimony, all main segments that have
46 accumulated a Uniform Main Rank Index rating greater than 6.0 are placed on a schedule
47 to be retired within one year. These safety projects cannot be put on hold until a five- or
48 ten-year moratorium expires. Peoples Gas cannot avoid degradation fees anymore than it
49 can avoid the permit fees with which the degradation fee is associated.

50 **Q. Those examples apply to emergency situations. What about AMRP projects?**

51 A. While AMRP work is amenable to longer term planning, a ten-year moratorium, such as
52 applies to a reconstructed street, poses largely unavoidable planning problems if work is
53 to be completed efficiently. As Joint Applicants witnesses Allen Leverett and James
54 Schott stated, it is Peoples Gas' intention, with appropriate cost recovery, to complete the
55 AMRP in 20 years. If Peoples Gas took the approach that it could not do AMRP work
56 where a five- or ten-year moratorium applies to a street within a neighborhood zone
57 where AMRP work is planned, that would either upend the neighborhood approach to
58 AMRP or result in a patchwork of streets that had to be scheduled in isolation to avoid
59 moratoria, in either case producing inefficiencies.

60 **III. AMRP IMPLEMENTATION AND REPORTING**

61 **Q. AG witness Mr. Coppola restates his recommendation that the Illinois Commerce**
62 **Commission ("Commission") condition approval of the Reorganization on**
63 **Wisconsin Energy Corporation performing an evaluation of the AMRP to scale the**
64 **program to "a level of cast iron/ductile iron main replacement and related**

65 **infrastructure upgrades that is manageable, targets high priority, high risk**
66 **segments first, [is] cost effective, and minimizes the impact on customer rates” (AG**
67 **Ex. 4.0, 35:676-682). Please comment.**

68 A. For the reasons stated in my rebuttal testimony, I have concerns with this proposal. As
69 explained in that testimony, the recommendation to target “high priority, high risk
70 segments” as the AMRP planning approach could introduce inefficiencies in the project
71 and, consequently, increase customer costs to the extent it displaces the neighborhood
72 approach. Addressing “high priority, high risk” pipe is an essential part of Peoples Gas’
73 operations, but the AMRP is a broader initiative.

74 **Q. City/CUB witness Mr. Cheaks continues to recommend several types of information**
75 **and reports that the Joint Applicants should provide to the Commission and the**
76 **Chicago Department of Transportation (“CDOT”). He slightly revised his**
77 **recommendation about Field Order Authorizations and Change Orders to**
78 **recommend communication within 24 hours “of their approval.” City/CUB Ex. 7.0,**
79 **2:16-17, 15:286-293. Does this revision change your testimony about the feasibility**
80 **of providing the requested information?**

81 A. Mr. Cheaks’ revision to his proposal partially addresses my comments about feasibility,
82 but the Joint Applicants continue to question why the Commission would use this (or any
83 other) proceeding to decide detailed reporting requirements to the City. As Joint
84 Applicants witness Mr. Schott explained, if the Commission needs information about the
85 AMRP change management process (including Field Order Authorizations and Change
86 Orders and other relevant documents) in order to review, for example, prudence and

reasonableness of AMRP expenditures, it has the tools to get this information. Moreover, it is the Commission that has this oversight responsibility.

Q. You stated that Mr. Cheaks’ revisions to his proposal partially address your comments about feasibility. Please explain what you mean.

A. For Field Order Authorizations (“FOAs”), it would be feasible to produce these within two business days of final approval of an FOA. A twenty-four hour turnaround, however, would be burdensome. For Change Orders, the review process includes more steps and is not fully within Project Management’s control. More importantly, the Change Orders often include information that is proprietary to third party vendors (*e.g.*, contractors’ rates and materials costs). Contractually, Peoples Gas would be precluded from producing the information to the City without appropriate confidentiality protections. (Production to the Commission is generally not an issue because disclosure under a regulatory requirement is typically allowed under a contract and I understand that the Public Utilities Act has provisions to address providing confidentiality for production to the Commission.) Committing to produce Change Orders with a very short turnaround from final approval (whether twenty-four hours or two business days) could be difficult and would require establishing new processes, including addressing confidentiality concerns.

Q. Mr. Cheaks reiterated his proposal that the Commission monitor six specific items and impose financial penalties for non-compliance. City/CUB Ex. 7.0, 16:308 - 18:369. Does his testimony about any of these items change the position stated in your rebuttal testimony?

A. No. Setting aside whether this is an appropriate condition for the Commission to impose in this proceeding, I believe the Commission has built auditability and transparency into

the performance of the AMRP program and can monitor and assess prudence of spend. More specific to the six categories in which Mr. Cheaks recommends performance-based financial penalties, I have the following response:

Permitting timeframe adherence: AMRP is consistently improving processes to improve program performance regardless of financial penalties. Peoples Gas will enhance those efforts while implementing the Commission audit findings throughout 2015 and beyond. That said, with the escalation of permit costs within the City, and increase in CDOT citations³, sufficient financial incentives already exist concerning permit adherence.

Approved capital and O&M spend adherence: As stated above, the Commission currently has auditability and transparency into the performance of the AMRP program and can monitor and assess the prudence of spend.

Change Order spending and communication: Please see my testimony above with respect to producing FOAs and Change Orders.

Management reserve spending: Please see my testimony above with respect to “approved capital and O&M spend adherence.”

Time needed to close a Field Order Authorization and Change Orders: Timing of FOA and Change Order closeout has no relevance to the prudence of said change orders or the competency in which they are managed. Please see my testimony above with respect to producing FOAs and Change Orders.

Contractor hits on all facilities: As stated in my rebuttal testimony, Peoples Gas tracks all hits on its facilities, irrespective of who is responsible or whether the hit is AMRP-related. AMRP contractor hits on other facilities are tracked in a non-conformance report

³ The citation costs are not recovered from Peoples Gas’ customers.

133 that addresses the root cause of the hit and the necessary corrective action taken. As part
134 of AMRP, Peoples Gas will continue to review root cause analysis and work with
135 contractors and the City to diligently monitor and improve installation practices. The
136 Commission also would need to consider other numerous factors that influence contractor
137 hits on facilities, including the City Office of Underground Coordination review of
138 drawings, inaccurate locating of facilities (much of which is contracted for and managed
139 by City utilities), contractor error, inaccurate underground records, *etc.*

140 **Q. Does this conclude your surrebuttal testimony?**

141 **A.** Yes.